

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Galesburg	County Kalamazoo
Fiscal Year End June 30, 2007	Opinion Date November 28, 2007	Date Audit Report Submitted to State December 17, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

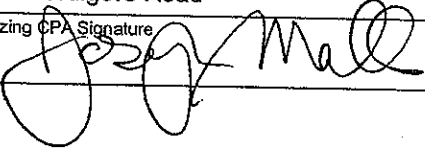
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☒ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Single audit reports on internal control, compliance and other matters	
Certified Public Accountant (Firm Name) Siegfried Crandall PC		Telephone Number (269)381-4970	
Street Address 246 East Kilgore Road		City Kalamazoo	State MI
Zip 49002			
Authorizing CPA Signature 		Printed Name Joseph M Walls	License Number 1101013696

City of Galesburg
Kalamazoo County, Michigan
**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**
Year ended June 30, 2007

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INDEPENDENT AUDITORS' REPORT

City Council
City of Galesburg, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Galesburg, Michigan, as of June 30, 2007, and for the year then ended, which collectively comprise the City of Galesburg, Michigan's basic financial statements, as listed in the contents. These financial statements are the responsibility of the City of Galesburg, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Galesburg, Michigan, as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have issued our report dated November 28, 2007, on our consideration of the City of Galesburg, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



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The budgetary comparison information, on pages 27 to 29, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The City of Galesburg, Michigan has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the City of Galesburg, Michigan's basic financial statements. The supplementary information, as listed in the contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City of Galesburg, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sigfried Crandall P.C.

November 28, 2007

BASIC FINANCIAL STATEMENTS

City of Galesburg
STATEMENT OF NET ASSETS
June 30, 2007

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash	\$ 408,551	\$ 1,228,139	\$ 1,636,690
Receivables, net	157,396	94,542	251,938
Internal balances	(31,576)	31,576	-
Total current assets	<u>534,371</u>	<u>1,354,257</u>	<u>1,888,628</u>
Noncurrent assets:			
Receivables, net	2,461	5,839	8,300
Capital assets not being depreciated - land and construction in progress	122,280	2,390,246	2,512,526
Capital assets, net of accumulated depreciation	<u>755,035</u>	<u>718,995</u>	<u>1,474,030</u>
Total noncurrent assets	<u>879,776</u>	<u>3,115,080</u>	<u>3,994,856</u>
Total assets	<u>1,414,147</u>	<u>4,469,337</u>	<u>5,883,484</u>
LIABILITIES			
Current liabilities:			
Accounts payable	17,353	228,043	245,396
Current maturities of long-term liabilities	<u>28,499</u>	<u>110,000</u>	<u>138,499</u>
Total current liabilities	<u>45,852</u>	<u>338,043</u>	<u>383,895</u>
Noncurrent liabilities:			
Compensated absences	40,497	-	40,497
Bonds and notes payable	<u>88,887</u>	<u>2,140,444</u>	<u>2,229,331</u>
Total noncurrent liabilities	<u>129,384</u>	<u>2,140,444</u>	<u>2,269,828</u>
Total liabilities	<u>175,236</u>	<u>2,478,487</u>	<u>2,653,723</u>
NET ASSETS			
Invested in capital assets, net of related debt	759,929	858,797	1,618,726
Restricted	350,396	-	350,396
Unrestricted	<u>128,586</u>	<u>1,132,053</u>	<u>1,260,639</u>
Total net assets	<u>\$ 1,238,911</u>	<u>\$ 1,990,850</u>	<u>\$ 3,229,761</u>

See notes to the financial statements

City of Galesburg
STATEMENT OF ACTIVITIES
Year ended June 30, 2007

		<u>Program revenues</u>	
		<u>Operating</u>	<u>Capital</u>
	<u>Expenses</u>	<u>Charges for</u>	<u>grants and</u>
		<u>services</u>	<u>grants and</u>
			<u>contributions</u>
			<u>contributions</u>
Functions/Programs			
Governmental activities:			
Legislative	\$ 8,655	\$ -	\$ -
General government	156,530	22,006	25
Public safety	257,888	38,080	1,218
Public works	180,756	-	123,909
Community and economic development	6,225	4,152	-
Culture and recreation	86,467	23,439	49,000
Interest on long-term debt	6,540	1,045	-
Total governmental activities	<u>703,061</u>	<u>88,722</u>	<u>174,152</u>
Business-type activities:			
Sewer	139,564	136,363	-
Water	<u>120,357</u>	<u>213,122</u>	<u>-</u>
Total business-type activities	<u>259,921</u>	<u>349,485</u>	<u>-</u>
Total primary government	<u>\$ 962,982</u>	<u>\$ 438,207</u>	<u>\$ 174,152</u>
			<u>\$ 14,637</u>

General revenues:
Property taxes
State shared revenues
Investment income
Franchise fees

Total general revenues

Change in net assets

Net assets - beginning

Net assets - ending

<i>Net (expenses) revenues and changes in net assets</i>		
<i>Governmental activities</i>	<i>Business-type activities</i>	<i>Totals</i>
\$ (8,655)		\$ (8,655)
(134,499)		(134,499)
(218,590)		(218,590)
(42,210)		(42,210)
(2,073)		(2,073)
(14,028)		(14,028)
(5,495)		(5,495)
<u>(425,550)</u>		<u>(425,550)</u>
-	\$ (3,201)	(3,201)
-	92,765	92,765
-	89,564	89,564
<u>(425,550)</u>	<u>89,564</u>	<u>(335,986)</u>
262,463	-	262,463
185,387	-	185,387
2,811	35,330	38,141
3,039	-	3,039
<u>453,700</u>	<u>35,330</u>	<u>489,030</u>
28,150	124,894	153,044
<u>1,210,761</u>	<u>1,865,956</u>	<u>3,076,717</u>
<u>\$ 1,238,911</u>	<u>\$ 1,990,850</u>	<u>\$ 3,229,761</u>

See notes to the financial statements

City of Galesburg
BALANCE SHEET - governmental funds
June 30, 2007

	<u>General</u>	<u>Major Street</u>	<u>Nonmajor governmental funds</u>	<u>Total governmental funds</u>
ASSETS				
Cash	\$ 54,038	\$ 121,275	\$ 210,196	\$ 385,509
Receivables, net	110,484	31,967	17,406	159,857
Due from other funds	6,155	52	3,261	9,468
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 170,677</u>	<u>\$ 153,294</u>	<u>\$ 230,863</u>	<u>\$ 554,834</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 13,779	\$ 2,053	\$ 194	\$ 16,026
Due to other funds	25,000	1,235	911	27,146
Deferred revenue	-	21,270	8,098	29,368
Advances from other funds	32,000	-	-	32,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>70,779</u>	<u>24,558</u>	<u>9,203</u>	<u>104,540</u>
Fund balances, unreserved	<u>99,898</u>	<u>128,736</u>	<u>221,660</u>	<u>450,294</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 170,677</u>	<u>\$ 153,294</u>	<u>\$ 230,863</u>	<u>\$ 554,834</u>
Total fund balances - total governmental activities				\$ 450,294
Amounts reported for governmental activities in the statement of net assets (page 5) are different because:				
Capital assets (exclusive of \$58,095 of the internal service fund) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.				819,220
Compensated absences are not due and payable in the current period and, therefore, are not reported in the governmental funds.				(40,497)
Long-term bonds and notes payable are not due and payable in the current period and, therefore, are not reported in the governmental funds.				(117,386)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are not reported in the governmental funds.				29,368
The net assets (including capital assets of \$58,095) and liabilities of the internal service fund are included in the governmental activities in the statement of net assets.				<u>97,912</u>
Net assets of governmental activities				<u>\$ 1,238,911</u>

See notes to the financial statements

City of Galesburg**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - governmental funds**

Year ended June 30, 2007

	<u>General</u>	<u>Major Street</u>
REVENUES		
Property taxes	\$ 251,261	\$ -
State grants	193,554	90,065
Fines and forfeitures	45,019	-
Licenses and permits	4,217	-
Intergovernmental	16,500	-
Charges for services	8,316	-
Interest and rentals	2,037	143
Other	<u>35,852</u>	<u>-</u>
Total revenues	<u>556,756</u>	<u>90,208</u>
EXPENDITURES		
Legislative	8,655	-
General government	151,698	-
Public safety	250,582	-
Public works	50,446	71,330
Community and economic development	6,225	-
Culture and recreation	78,014	-
Debt service:		
Principal	6,493	-
Interest and fiscal charges	160	-
Capital outlay	<u>9,764</u>	<u>-</u>
Total expenditures	<u>562,037</u>	<u>71,330</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(5,281)</u>	<u>18,878</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	11,268	-
Transfers out	<u>-</u>	<u>(33,902)</u>
Total other financing sources (uses)	<u>11,268</u>	<u>(33,902)</u>
NET CHANGE IN FUND BALANCES	5,987	(15,024)
FUND BALANCES - BEGINNING	<u>93,911</u>	<u>143,760</u>
FUND BALANCES - ENDING	<u>\$ 99,898</u>	<u>\$ 128,736</u>

<i>Nonmajor governmental funds</i>	<i>Total governmental funds</i>
\$ 26,141	\$ 277,402
28,405	312,024
-	45,019
-	4,217
-	16,500
-	8,316
3,401	5,581
<u>29,054</u>	<u>64,906</u>
 87,001	 733,965
 -	 8,655
-	151,698
-	250,582
38,632	160,408
-	6,225
3,533	81,547
 27,883	 34,376
6,380	6,540
<u>-</u>	<u>9,764</u>
 76,428	 709,795
 10,573	 24,170
 22,773	 34,041
<u>(139)</u>	<u>(34,041)</u>
 22,634	 -
 33,207	 24,170
<u>188,453</u>	<u>426,124</u>
 \$ 221,660	 \$ 450,294

See notes to the financial statements

City of Galesburg

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - governmental funds (Continued)**

Year ended June 30, 2007

	<u>Total governmental funds</u>
Net change in fund balances - total governmental funds	\$ 24,170
<p>Amounts reported for governmental activities in the statement of activities (page 6) are different because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the statement of net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation (\$46,301) exceeded capital outlays (\$15,303) in the current period.</p>	
	(30,998)
<p>The repayment of principal on such debt consumes the current financial resources of the governmental funds, but does not have an effect on net assets</p>	
	34,376
<p>Assessment revenues deferred in the funds are reported as earned in the current year on the statement of activities</p>	
	8,098
<p>Compensated absences reported in the statement of activities do not require the use of current financial resources, and, therefore, are not reported as expenditures in governmental funds.</p>	
	5,574
<p>The net expenses of the internal service fund is reported with governmental activities.</p>	
	<u>(13,070)</u>
Change in net assets of governmental activities	<u>\$ 28,150</u>

See notes to the financial statements

City of Galesburg
STATEMENT OF NET ASSETS - proprietary funds
June 30, 2007

	Business-type activities			Governmental activities
	Enterprise funds			Internal service
	Sewer	Water	Totals	service
ASSETS				
Current assets:				
Cash	\$ 536,045	\$ 692,094	\$1,228,139	\$ 23,042
Receivables, net	36,696	57,846	94,542	-
Due from other funds	25,000	-	25,000	-
Total current assets	<u>597,741</u>	<u>749,940</u>	<u>1,347,681</u>	<u>23,042</u>
Noncurrent assets:				
Receivables	2,242	3,597	5,839	-
Advances to other funds	32,000	-	32,000	-
Capital assets not being depreciated - land and construction in progress	36,216	2,354,030	2,390,246	-
Capital assets, net of accumulated depreciation	<u>350,337</u>	<u>368,658</u>	<u>718,995</u>	<u>58,095</u>
Total noncurrent assets	<u>420,795</u>	<u>2,726,285</u>	<u>3,147,080</u>	<u>58,095</u>
Total assets	<u>1,018,536</u>	<u>3,476,225</u>	<u>4,494,761</u>	<u>81,137</u>
LIABILITIES				
Current liabilities:				
Accounts payable	15,372	212,671	228,043	1,327
Due to other funds	3,309	3,453	6,762	560
Bonds payable - current	<u>7,500</u>	<u>102,500</u>	<u>110,000</u>	<u>-</u>
Total current liabilities	<u>26,181</u>	<u>318,624</u>	<u>344,805</u>	<u>1,887</u>
Noncurrent liabilities - bonds payable	<u>37,500</u>	<u>2,102,944</u>	<u>2,140,444</u>	<u>-</u>
Total liabilities	<u>63,681</u>	<u>2,421,568</u>	<u>2,485,249</u>	<u>1,887</u>
NET ASSETS				
Invested in capital assets, net of related debt	341,553	517,244	858,797	58,095
Unrestricted	<u>613,302</u>	<u>537,413</u>	<u>1,150,715</u>	<u>21,155</u>
Total net assets	<u>\$ 954,855</u>	<u>\$ 1,054,657</u>	<u>2,009,512</u>	<u>\$ 79,250</u>

Amounts reported for business-type activities in the statement of net assets are difference because:

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds. (18,662)

Net assets of business-type activities \$1,990,850

See notes to the financial statements

City of Galesburg

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -

proprietary funds

Year ended June 30, 2007

	Business-type activities			Governmental activities
	Enterprise funds			Internal service
	Sewer	Water	Totals	
OPERATING REVENUES				
Charges for services	\$ 136,344	\$ 209,026	\$ 345,370	\$ 23,645
Other	19	4,096	4,115	-
Total operating revenues	136,363	213,122	349,485	23,645
OPERATING EXPENSES				
Personnel costs	30,771	58,039	88,810	24,745
Operating supplies	2,013	17,981	19,994	6,960
Office supplies	285	296	581	-
Treatment charges	64,808	-	64,808	-
Maintenance and repairs	16,612	7,544	24,156	2,298
Utilities	360	8,757	9,117	-
Equipment rental	1,397	6,342	7,739	-
Depreciation	19,376	15,270	34,646	9,052
Total operating expenses	135,622	114,229	249,851	43,055
OPERATING INCOME (LOSS)	741	98,893	99,634	(19,410)
NONOPERATING REVENUES (EXPENSES)				
Interest revenue	14,078	21,252	35,330	-
Interest expense	(2,798)	(932)	(3,730)	-
Total nonoperating revenues	11,280	20,320	31,600	-
CHANGE IN NET ASSETS	12,021	119,213	131,234	(19,410)
TOTAL NET ASSETS - BEGINNING	942,834	935,444	1,878,278	98,660
TOTAL NET ASSETS - ENDING	\$ 954,855	\$ 1,054,657	\$ 2,009,512	\$ 79,250

Change in net assets \$ 131,234

Amounts reported for business-type activities in the statement of activities are different because:

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds. (6,340)

Change in net assets of business-type activities \$ 124,894

See notes to the financial statements

City of Galesburg
STATEMENT OF CASH FLOWS - proprietary funds
Year ended June 30, 2007

	Business-type activities			Governmental activities
	Enterprise funds			Internal service
	Sewer	Water	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 142,601	\$ 221,556	\$ 364,157	\$ -
Receipts from interfund services provided	-	-	-	23,645
Payments to suppliers	(87,607)	(51,745)	(139,352)	(8,671)
Payments to employees	(30,771)	(58,039)	(88,810)	(24,745)
Internal activity - payments to other funds	(5,676)	(6,281)	(11,957)	(1,229)
Net cash provided by (used in) operating activities	18,547	105,491	124,038	(11,000)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Short-term advance to other fund	(25,000)	-	(25,000)	-
Repayment of long-term advances	6,000	-	6,000	-
Net cash provided by (used in) noncapital financing activities	(19,000)	-	(19,000)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Collections of customer assessments	5,958	4,388	10,346	-
Purchase of capital assets	-	(1,501,820)	(1,501,820)	(6,180)
Decrease in accounts payable	-	(253,333)	(253,333)	-
Proceeds from long-term debt	-	1,743,228	1,743,228	-
Principal paid on capital debt	(7,500)	(2,500)	(10,000)	-
Interest paid on capital debt	(2,798)	(932)	(3,730)	-
Net cash used in capital and related financing activities	(4,340)	(10,969)	(15,309)	(6,180)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	14,078	6,752	20,830	-
NET INCREASE (DECREASE) IN CASH	9,285	101,274	135,559	(17,180)
CASH - BEGINNING	526,760	590,820	1,117,580	40,222
CASH - ENDING	\$ 536,045	\$ 692,094	\$ 1,253,139	\$ 23,042
Supplemental information:				
Acquisition of capital assets	\$ -	\$ (1,712,937)	\$ (1,712,937)	\$ -
Increase in accounts payable	-	199,273	199,273	-
Increase in accrued interest	-	11,844	11,844	-
Net cash used	\$ -	\$ (1,501,820)	\$ (1,501,820)	\$ -

See notes to the financial statements

STATEMENT OF CASH FLOWS - *proprietary funds* (Continued)

Year ended June 30, 2007

	<i>Business-type activities</i>			<i>Governmental activities</i>
	<i>Enterprise funds</i>			<i>Internal service</i>
	<i>Sewer</i>	<i>Water</i>	<i>Totals</i>	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 741	\$ 98,893	\$ 99,634	\$ (19,410)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	19,376	15,270	34,646	9,052
Changes in assets and liabilities:				
Accounts receivable	6,238	8,434	14,672	555
Due from other funds	3,445	-	3,445	-
Due to other funds	(9,121)	(6,281)	(15,402)	(1,229)
Accounts payable	(2,132)	(10,825)	(12,957)	32
Net cash provided by (used in) operating activities	<u>\$ 18,547</u>	<u>\$ 105,491</u>	<u>\$ 124,038</u>	<u>\$ (11,000)</u>

See notes to the financial statements

City of Galesburg

STATEMENT OF FIDUCIARY NET ASSETS - *agency fund*

June 30, 2007

ASSETS

Cash	\$ <u>11,813</u>
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LIABILITIES

Due to other governmental units	\$ <u>11,813</u>
---------------------------------	------------------

See notes to the financial statements

City of Galesburg
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the City of Galesburg, Michigan (the City), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governments. The following is a summary of the more significant policies.

a) Reporting entity:

The accompanying financial statements present the government and its component unit, entities for which the government is considered to be financially accountable. When the component unit commences activity, its financial information will be reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the government.

Discretely-presented component unit - Downtown Development Authority:

This unit is legally separate from the City. Separate financial statements of the component unit will not be issued, as management believes these general purpose financial statements, including disclosures, will contain complete information so as to constitute a fair presentation of the component unit. The City Council approved a resolution to establish a Downtown Development District (DDA) in September, 2006, and subsequently approved the DDA board appointments and meeting schedule. The City Council will also approve the DDA annual budgets. At June 30, 2007 the DDA board had not yet convened, and had no financial activities to be reported. In subsequent years, a portion of the City's and other units of government taxes will be allocated to the DDA for purposes of economic development within the newly established district.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the City. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

City of Galesburg
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City generally considers property tax revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due. State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the government. Only the portion of special assessment receivable due within the current year is considered susceptible to accrual as revenue of the current period.

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.

The Major Street Fund accounts for state gas and weight tax revenues that are restricted for expenditures related to maintaining and improving the City's major streets.

The City reports the following major proprietary funds:

The Sewer Fund accounts for the activities of the City's sewage collection systems.

The Water Fund accounts for the activities of the City's water distribution system.

Additionally, the City reports an internal service fund that accounts for vehicle and equipment management services provided to other departments of the City on a cost-reimbursement basis.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector standards.

City of Galesburg
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues includes all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds relate to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted as they are needed.

d) Assets, liabilities, and net assets or equity:

i) Bank deposits - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Pooled interest income is proportionately allocated to all funds.

ii) Receivables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." No allowance for uncollectible accounts has been recorded as the City considers all receivables to be fully collectible.

iii) Prepaid items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

iv) Capital assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	15 - 60 years
Equipment	3 - 5 years
Vehicles	3 - 5 years
Sewer and water systems	50 years
Roads	10 - 30 years
Library collection	20 years

City of Galesburg
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) Assets, liabilities, and net assets or equity (continued):

v) Compensated absences (vacation and sick leave) - It is the government's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability for unpaid accumulated vacation and sick leave has been recorded for the portion due to employees upon separation from service with the City. Vested compensated absences are accrued when earned in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end.

vi) Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

vii) Property tax revenue recognition - Property taxes are levied as of July 1 on property values assessed as of December 31 of the prior year. The billings are due on or before August 14, after which time the bill becomes delinquent and penalties and interest may be assessed by the City. Property tax revenue is recognized in the year for which taxes have been levied and become available. The City levy date is July 1, and, accordingly, the total levy is recognized as revenue in the current year.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, department, and line-item. The legal level of budgetary control adopted by the governing body is the activity level. All annual appropriations lapse at the end of the fiscal year.

The following schedule sets forth significant budget variations:

<u>Fund</u>	<u>Function</u>	<u>Activity</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
Major Street	Public works	Winter maintenance	6,000	7,668	1,668
		Administration	2,263	19,447	17,184
	Other financing uses	Transfers out	23,896	33,902	10,006
Public safety	Debt service	Principal	-	17,883	17,883
		Interest and fiscal charges	-	2,578	2,578
Museum	Recreation and culture	Recreation and culture	-	2,160	2,160
Library		Recreation and culture	-	1,373	1,373

City of Galesburg
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - DEPOSITS:

At June 30, 2007, cash as presented in the accompanying financial statements, consists of the following:

	<u>Govern- mental activities</u>	<u>Business- type activities</u>	<u>Fiduciary</u>	<u>Total primary government</u>
Deposits	\$ 408,481	\$ 1,228,076	\$ 11,813	\$ 1,648,370
Cash on hand	<u>70</u>	<u>63</u>	<u>-</u>	<u>133</u>
Total cash	<u>\$ 408,551</u>	<u>\$ 1,228,139</u>	<u>\$ 11,813</u>	<u>\$ 1,648,503</u>

Deposits with financial institutions - State statutes and the City's investment policy authorize the City to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The City's deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the City will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized. As of June 30, 2007, \$1,025,492 of the City's bank balances of \$1,646,203 was exposed to custodial credit risk because it was uninsured.

The City believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the City evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

NOTE 4 - RECEIVABLES:

Receivables as of year end for the government's individual major and nonmajor funds, in the aggregate, are as follows:

	<u>Accounts</u>	<u>Special assess- ments</u>	<u>Interest</u>	<u>Inter- govern- mental</u>	<u>Totals</u>
Governmental funds:					
General	\$ 7,539	\$ -	\$ -	\$ 102,945	\$ 110,484
Major Street	-	17,180	-	14,787	31,967
Nonmajor	<u>2,500</u>	<u>8,098</u>	<u>-</u>	<u>6,808</u>	<u>17,406</u>
Totals	<u>\$ 10,039</u>	<u>\$ 25,278</u>	<u>\$ -</u>	<u>\$ 124,540</u>	<u>\$ 159,857</u>
Proprietary funds:					
Sewer	\$ 31,351	\$ 7,587	\$ -	\$ -	\$ 38,938
Water	<u>38,927</u>	<u>8,016</u>	<u>14,500</u>	<u>-</u>	<u>61,443</u>
Totals	<u>\$ 70,278</u>	<u>\$ 15,603</u>	<u>\$ 14,500</u>	<u>\$ -</u>	<u>\$ 100,381</u>
Noncurrent portion	<u>\$ -</u>	<u>\$ 8,300</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,300</u>

City of Galesburg
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2007, was as follows:

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Governmental activities:				
Capital assets not being depreciated - land	<u>\$ 122,280</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 122,280</u>
Capital assets being depreciated:				
Buildings	718,996	-	-	718,996
Equipment and vehicles	570,268	7,529	(3,727)	574,070
Library collection	184,494	13,954	(17,184)	181,264
Infrastructure	<u>119,387</u>	<u>-</u>	<u>-</u>	<u>119,387</u>
Subtotal	<u>1,593,145</u>	<u>21,483</u>	<u>(20,911)</u>	<u>1,593,717</u>
Less accumulated depreciation for:				
Buildings	(305,948)	(18,311)	-	(324,259)
Equipment and vehicles	(399,172)	(20,644)	3,727	(416,089)
Library collection	(90,572)	(8,439)	17,184	(81,827)
Infrastructure	<u>(8,548)</u>	<u>(7,959)</u>	<u>-</u>	<u>(16,507)</u>
Subtotal	<u>(804,240)</u>	<u>(55,353)</u>	<u>20,911</u>	<u>(838,682)</u>
Total capital assets being depreciated, net	<u>788,905</u>	<u>(33,870)</u>	<u>-</u>	<u>755,035</u>
Governmental activities capital assets, net	<u>\$ 911,185</u>	<u>\$ (33,870)</u>	<u>\$ -</u>	<u>\$ 877,315</u>

City of Galesburg
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS (Continued):

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Business-type activities:				
Capital assets not being depreciated - land	\$ 37,216	\$ -	\$ -	\$ 37,216
Construction in progress	<u>640,094</u>	<u>1,712,937</u>	<u>-</u>	<u>2,353,031</u>
Subtotal	<u>677,310</u>	<u>1,712,937</u>	<u>-</u>	<u>2,390,247</u>
Capital assets being depreciated:				
Buildings and equipment	250,305	-	-	250,305
Sewer system	849,237	-	-	849,237
Water system	<u>742,365</u>	<u>-</u>	<u>-</u>	<u>742,365</u>
Subtotal	<u>1,841,907</u>	<u>-</u>	<u>-</u>	<u>1,841,907</u>
Less accumulated depreciation for:				
Buildings and equipment	(205,307)	(2,695)	-	(208,002)
Sewer system	(523,947)	(16,734)	-	(540,681)
Water system	<u>(359,013)</u>	<u>(15,217)</u>	<u>-</u>	<u>(374,230)</u>
Subtotal	<u>(1,088,267)</u>	<u>(34,646)</u>	<u>-</u>	<u>(1,122,913)</u>
Total capital assets being depreciated, net	<u>753,640</u>	<u>(34,646)</u>	<u>-</u>	<u>718,994</u>
Business-type activities capital assets, net	<u>\$ 1,430,950</u>	<u>\$ 1,678,291</u>	<u>\$ -</u>	<u>\$ 3,109,241</u>

Additions to construction in progress include \$34,600 capitalized construction period interest expense.

Depreciation expense was charged to governmental activities functions of the City as follows:

Governmental activities:	
General government	\$ 14,363
Public safety	5,443
Public works	9,255
Recreation and culture	17,240
Depreciation on capital assets of internal service funds	<u>9,052</u>
Total governmental activities	<u>\$ 55,353</u>

City of Galesburg
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - NONCURRENT LIABILITIES:

Noncurrent liabilities at June 30, 2007, are comprised of the following individual issues:

Governmental activities:

Accrued compensated absences	<u>\$ 40,497</u>
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Note payable - bank, installment purchase contract; secured by the full faith and credit of the City, payable in annual installments of \$20,462, including interest at 3.42%; final payment due October 1, 2009	57,386
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\$125,000 1997 Michigan Transportation Fund limited obligation bonds; secured by the full faith and credit of the City, payable in annual installments ranging from \$5,000 to \$15,000, with interest payable semi-annually at rates from 4.0% to 5.3%; final payment due January 2012	<u>60,000</u>
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Total contracts and bonds	<u>117,386</u>
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Total governmental activities noncurrent liabilities	<u>\$ 157,883</u>
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Business-type activities:

\$150,000 1997 sewer and water revenue bonds; secured by sewer and water revenues, payable in annual installments of \$10,000 with a final installment of \$20,000, with interest payable semi-annually at rates from 4.0% to 5.25%; final payment due October 2011	\$ 60,000
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\$2,500,000 Drinking Water Revolving Fund bonds; payable in 20 annual installments of \$100,000 to \$150,000, principal payments commencing no later than April, 2008; with interest due at 2.125%, payable in semi-annual installments beginning October 2006. Balance represents cumulative draws on available proceeds to June 30, 2007.	<u>2,190,444</u>
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Total business-type activities noncurrent liabilities	<u>\$ 2,250,444</u>
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City of Galesburg
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - NONCURRENT LIABILITIES (Continued):

Noncurrent liability activity for the year ended June 30, 2007, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Governmental activities:					
2003 Note payable	\$ 75,270	\$ -	\$ (17,884)	\$ 57,386	\$ 18,499
2004 Note payable	6,492	-	(6,492)	-	-
1997 Transportation bonds	70,000	-	(10,000)	60,000	10,000
Total installment debt	151,762	-	(34,376)	117,386	28,499
Compensated absences	46,071	24,265	(29,839)	40,497	-
Total noncurrent liabilities	<u>\$ 197,833</u>	<u>\$ 24,265</u>	<u>\$ (64,215)</u>	<u>\$ 157,883</u>	<u>\$ 28,499</u>
Business-type activities:					
1997 revenue bonds	\$ 70,000	\$ -	\$ (10,000)	\$ 60,000	\$ 10,000
DWRF loan payable	654,960	1,535,484	-	2,190,444	100,000
Total noncurrent liabilities	<u>\$ 724,960</u>	<u>\$ 1,535,484</u>	<u>\$ (10,000)</u>	<u>\$ 2,250,444</u>	<u>\$ 110,000</u>

At June 30, 2007, debt service requirements, with the exception of the compensated absences, were as follows:

	<u>Governmental activities</u>		<u>Business-type activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
Year ended June 30:				
2008	\$ 28,499	\$ 5,114	\$ 110,000	\$ 49,377
2009	29,130	3,970	115,000	46,752
2010	29,757	2,796	115,000	44,016
2011	15,000	1,590	120,000	41,269
2012	15,000	795	130,000	38,147
2013-2025	-	-	1,660,444	260,116
	<u>\$ 117,386</u>	<u>\$ 14,265</u>	<u>\$ 2,250,444</u>	<u>\$ 479,677</u>

City of Galesburg
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

At June 30, 2007, the composition of interfund balances is as follows:

<u>Fund</u>	<u>Receivable</u>	<u>Fund</u>	<u>Payable</u>
General Fund	\$ 6,155	Major Street Fund	\$ 1,235
		Local Street Fund	859
		Sewer Fund	816
		Water Fund	2,685
			<u>560</u>
			<u>6,155</u>
Major Street	<u>52</u>	Local Street	<u>52</u>
Debt Service	<u>3,261</u>	Sewer Fund	2,493
		Water Fund	<u>768</u>
			<u>3,261</u>
Sewer Fund	<u>25,000</u>	General Fund	<u>25,000</u>
Total	<u>\$ 34,468</u>	Total	<u>\$ 34,468</u>

A long-term interfund advance from the Sewer Fund to the General Fund has a balance of \$32,000 at June 30, 2007. The advance is being repaid in annual installments as cash is considered available for repayment purposes in the General Fund. In the year ended June 30, 2007, a \$6,000 repayment was made.

The remaining interfund balances represent temporary amounts arising due to the use of pooled disbursement accounts for operations and debt service payments, and a short term advance from the Sewer Fund to the General Fund.

The interfund transfers for the year ended June 30, 2007 represent the transfers of \$11,268 of unrestricted funds from the Major Street Fund to the General Fund to reflect the reimbursement of costs for a prior special assessment construction project, and a transfer of \$22,773 unrestricted funds from the Major Street fund to the Local Street Fund (a nonmajor fund) to finance a portion of local street costs. Available interest in the amount of \$139 was transferred from the Perpetual Care Fund to the General Fund to cover cemetery costs.

City of Galesburg
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 - RISK MANAGEMENT:

The City is exposed to various risks of loss arising from general liability, wrongful acts, professional liability, property damage and destruction, crimes, accidents, and injuries.

Risks of loss arising from possible claims are managed through the purchase of commercial insurance. General, professional, wrongful act, and automotive liabilities policy period maximums are set at \$2,000,000 to \$5,000,000. Buildings and property coverage's total approximately \$2,000,000.

For all risks of loss, there have been no significant reductions in insurance coverage from coverage provided in prior years. Also, in the past three years, settlements did not exceed insurance coverage.

NOTE 9 - JOINT VENTURE:

The Galesburg-Charleston Fire Department (the Department) is a joint venture of the City of Galesburg and the City of Charleston. The administrative board of the Department consists of five members: one at-large member and two members from each of the participating units. The budget of the Department must be approved by each of the participating units. The costs of operations and capital expenditures of the Department are supported by contributions from the participating units in equal shares. During the year ended June 30, 2007, the City contributed \$47,628 to the Department for operations. Complete audited financial statements for the Department can be obtained from the Treasurer of the Department.

NOTE 10 - RETIREMENT PLAN:

The City provides pension benefits for all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Employees are eligible to participate after twelve months of employment with a minimum thirty hours worked per week. The City contributes up to 5% of each qualified employee's base salary to the plan as a match. The City's contributions are fully vested after three years of employment. The City is not a trustee of the plan, nor is the City responsible for investment management of plan assets.

The City and employees made the required contributions of \$15,445.

NOTE 11 - CONSTRUCTION CODE ACT:

A summary of construction code enforcement transactions for the year ended June 30, 2007, follows:

Revenues	\$ 4,152
Expenses	<u>(6,047)</u>
Excess of expenditures over revenue	<u>\$ (1,895)</u>

City of Galesburg
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 12 - RESTRICTED NET ASSETS:

Net assets as of June 30, 2007, are restricted for the following purposes:

General government - cemetery	\$ 22,361
Public safety	39,744
Public works	175,740
Recreation and culture	41,325
Debt service	<u>71,226</u>
	<u>\$ 350,396</u>

REQUIRED SUPPLEMENTARY INFORMATION

City of Galesburg
BUDGETARY COMPARISON SCHEDULE - General Fund
Year ended June 30, 2007

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Property taxes	\$ 247,019	\$ 247,019	\$ 251,261	\$ 4,242
State grants	188,927	188,927	193,554	4,627
Fines and forfeitures	49,075	49,075	45,019	(4,056)
Licenses and permits	5,060	5,060	4,217	(843)
Intergovernmental	16,500	16,500	16,500	-
Charges for services	15,854	15,854	8,316	(7,538)
Interest and rentals	800	800	2,037	1,237
Other	17,600	27,834	35,852	8,018
Total revenues	<u>540,835</u>	<u>551,069</u>	<u>556,756</u>	<u>5,687</u>
EXPENDITURES				
Legislative - City Council	<u>10,765</u>	<u>9,765</u>	<u>8,655</u>	<u>1,110</u>
General government:				
Elections	5,943	3,928	2,421	1,507
Assessor	9,336	9,336	8,162	1,174
Clerk	13,360	13,360	10,807	2,553
Treasurer	10,698	22,182	13,462	8,720
Administration	66,889	86,288	85,469	819
City hall	20,701	20,201	18,430	1,771
Cemetery	8,854	11,779	11,714	65
DDA	-	1,500	1,233	267
Total general government	<u>135,781</u>	<u>168,574</u>	<u>151,698</u>	<u>16,876</u>
Public safety:				
Police	212,299	205,993	196,907	9,086
Fire	49,150	49,150	47,628	1,522
Building inspections	<u>5,115</u>	<u>8,216</u>	<u>6,047</u>	<u>2,169</u>
Total public safety	<u>266,564</u>	<u>263,359</u>	<u>250,582</u>	<u>12,777</u>
Public works - department of public works	<u>51,329</u>	<u>67,672</u>	<u>50,446</u>	<u>17,226</u>

City of Galesburg
BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)
Year ended June 30, 2007

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
EXPENDITURES (Continued)				
Community and economic development -				
Planning commission	\$ 4,150	\$ 4,057	\$ 3,122	\$ 935
Zoning	<u>2,779</u>	<u>3,079</u>	<u>3,103</u>	<u>(24)</u>
Total community and economic development	<u>6,929</u>	<u>7,136</u>	<u>6,225</u>	<u>911</u>
Culture and recreation:				
Library	78,134	78,134	74,738	3,396
Museum	<u>5,370</u>	<u>5,370</u>	<u>3,276</u>	<u>2,094</u>
Total culture and recreation	<u>83,504</u>	<u>83,504</u>	<u>78,014</u>	<u>5,490</u>
Debt service:				
Principal	<u>6,495</u>	<u>6,495</u>	<u>6,493</u>	<u>2</u>
Interest	<u>505</u>	<u>505</u>	<u>160</u>	<u>345</u>
Capital outlay	<u>10,685</u>	<u>7,998</u>	<u>9,764</u>	<u>(1,766)</u>
Total expenditures	<u>572,557</u>	<u>615,008</u>	<u>562,037</u>	<u>52,971</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(31,722)</u>	<u>(63,939)</u>	<u>(5,281)</u>	<u>58,658</u>
OTHER FINANCING SOURCES				
Transfer from Perpetual Care Fund	83	83	139	56
Transfer from Major Street Fund	<u>-</u>	<u>-</u>	<u>11,129</u>	<u>11,129</u>
Total other financing sources	<u>83</u>	<u>83</u>	<u>11,268</u>	<u>11,185</u>
NET CHANGE IN FUND BALANCE	(31,639)	(63,856)	5,987	69,843
FUND BALANCES - BEGINNING	<u>93,911</u>	<u>93,911</u>	<u>93,911</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 62,272</u>	<u>\$ 30,055</u>	<u>\$ 99,898</u>	<u>\$ 69,843</u>

City of Galesburg

BUDGETARY COMPARISON SCHEDULE - Major Street Fund

Year ended June 30, 2007

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
State grants	\$ 86,279	\$ 86,279	\$ 90,065	\$ 3,786
Interest	-	-	143	143
Other	300	300	-	(300)
Total revenues	<u>86,579</u>	<u>86,579</u>	<u>90,208</u>	<u>3,629</u>
EXPENDITURES				
Public works:				
Routine maintenance	45,622	40,636	40,959	(323)
Construction	25,000	25,000	-	25,000
Traffic services	3,275	3,275	3,256	19
Winter maintenance	6,000	6,000	7,668	(1,668)
Administration	<u>(1,263)</u>	<u>2,263</u>	<u>19,447</u>	<u>(17,184)</u>
Total expenditures	<u>78,634</u>	<u>77,174</u>	<u>71,330</u>	<u>5,844</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>7,945</u>	<u>9,405</u>	<u>18,878</u>	<u>9,473</u>
OTHER FINANCING USES				
Transfer out - General Fund	-	-	(11,129)	(11,129)
Transfer out - Local Street Fund	<u>(23,896)</u>	<u>(23,896)</u>	<u>(22,773)</u>	<u>(1,123)</u>
Total other financing uses	<u>(23,896)</u>	<u>(23,896)</u>	<u>(33,902)</u>	<u>(12,252)</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES AND OTHER USES	<u>(15,951)</u>	<u>(14,491)</u>	<u>(15,024)</u>	<u>(2,779)</u>
FUND BALANCES - BEGINNING	<u>143,760</u>	<u>143,760</u>	<u>143,760</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 127,809</u>	<u>\$ 129,269</u>	<u>\$ 128,736</u>	<u>\$ (2,779)</u>

SUPPLEMENTARY INFORMATION

City of Galesburg
COMBINING BALANCE SHEET - nonmajor governmental funds
 June 30, 2007

<i>Special revenue funds</i>					
	<i>Local Street</i>	<i>Public Safety</i>	<i>Museum</i>	<i>Library</i>	<i>Perpetual Care</i>
ASSETS					
Cash	\$ 40,751	\$ 37,600	\$ 703	\$ 40,816	\$ 22,361
Accounts receivable	2,500	-	-	-	-
Due from other governmental units	4,664	2,144	-	-	-
Due from other funds	-	-	-	-	-
Total assets	<u>\$ 47,915</u>	<u>\$ 39,744</u>	<u>\$ 703</u>	<u>\$ 40,816</u>	<u>\$ 22,361</u>
LIABILITIES AND FUND BALANCES					
Accounts payable	\$ -	\$ -	\$ -	\$ 194	\$ -
Deferred revenue	-	-	-	-	-
Due to other funds	911	-	-	-	-
Total liabilities	<u>911</u>	<u>-</u>	<u>-</u>	<u>194</u>	<u>-</u>
Fund balances, unreserved	<u>47,004</u>	<u>39,744</u>	<u>703</u>	<u>40,622</u>	<u>22,361</u>
Total liabilities and fund balances	<u>\$ 47,915</u>	<u>\$ 39,744</u>	<u>\$ 703</u>	<u>\$ 40,816</u>	<u>\$ 22,361</u>

<i>Debt Service</i>	<i>Total nonmajor governmental funds</i>
\$ 67,965	\$ 210,196
8,098	10,598
-	6,808
<u>3,261</u>	<u>3,261</u>
<u>\$ 79,324</u>	<u>\$ 230,863</u>

\$ -	\$ 194
8,098	8,098
<u>-</u>	<u>911</u>
<u>8,098</u>	<u>9,203</u>
<u>71,226</u>	<u>221,660</u>
<u>\$ 79,324</u>	<u>\$ 230,863</u>

City of Galesburg

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - nonmajor governmental funds**

Year ended June 30, 2007

	Special revenue funds				
	Local Street	Public Safety	Museum	Library	Perpetual Care
REVENUES					
Property taxes	\$ -	\$ 26,141	\$ -	\$ -	\$ -
State grants	28,405	-	-	-	-
Interest	-	263	5	956	151
Other	-	-	-	22,490	25
Total revenues	28,405	26,404	5	23,446	176
EXPENDITURES					
Public works	38,632	-	-	-	-
Recreation and culture	-	-	2,160	1,373	-
Debt service:					
Principal	-	17,883	-	-	-
Interest and fiscal charges	-	2,578	-	-	-
Capital outlay	-	-	-	-	-
Total expenditures	38,632	20,461	2,160	1,373	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(10,227)	5,943	(2,155)	22,073	176
OTHER FINANCING SOURCES (USES)					
Transfer in	22,773	-	-	-	-
Transfer out	-	-	-	-	(139)
Net financing sources	22,773	-	-	-	(139)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USE	12,546	5,943	(2,155)	22,073	37
FUND BALANCES - BEGINNING	34,458	33,801	2,858	18,549	22,324
FUND BALANCES - ENDING	<u>\$ 47,004</u>	<u>\$ 39,744</u>	<u>\$ 703</u>	<u>\$ 40,622</u>	<u>\$ 22,361</u>

<i>Debt Service</i>	<i>Total nonmajor governmental funds</i>
	\$ 26,141
	28,405
2,026	3,401
<u>6,539</u>	<u>29,054</u>
 8,565	 87,001
 -	 38,632
-	3,533
10,000	27,883
3,802	6,380
<u>-</u>	<u>-</u>
 13,802	 76,428
 (5,237)	 10,573
 -	 22,773
<u>-</u>	<u>(139)</u>
 -	 22,634
 (5,237)	 33,207
<u>76,463</u>	<u>188,453</u>
<u>\$ 71,226</u>	<u>\$ 221,660</u>

FEDERAL AWARDS

City of Galesburg

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2007

<u>Federal grantor/pass-through grantor/program title</u>	<u>Federal CFDA number</u>	<u>Federal expenditures</u>
U.S. Environmental Protection Agency, Capitalization Grants for Clean Water State Revolving Fund	66.458	<u>\$663,717</u>

NOTE: The schedule of expenditures of federal awards is prepared on the accrual basis of accounting.

City of Galesburg
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2007

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of the City of Galesburg.
2. Three material weaknesses were identified during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the City of Galesburg were disclosed during the audit.
4. No significant deficiencies were identified during the audit of the major federal award program.
5. The auditors' report on compliance for the major federal award program for the City of Galesburg expresses an unqualified opinion.
6. Audit findings relative to the major federal award program for the City of Galesburg are reported in Part C of this schedule.
7. The program tested as a major program follows:

<u>Federal agency</u>	<u>Program name</u>	<u>CFDA #</u>
U.S. Environmental Protection Agency	Capitalization Grants for Clean Water State Revolving Funds	66.458

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City of Galesburg was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

2007-1 *Condition and criteria:* Two quarterly utility billing journals were not posted to the general ledger. A schedule or checklist for verifying the completion of recurring entries should be maintained to verify that all quarterly billings are journalized.

Effect: Certain amounts reported in the City's internal accounting records were incomplete, and errors in general ledger postings were not detected during the year.

Cause: Procedures to verify the completion of recurring journal entries have not been implemented.

Population and Items Tested: Two of the four quarterly utility billing journals representing \$161,112 of the \$308,157 total billings were found to have not been posted. All four of the quarterly billings were analyzed for purposes of recording the utility billings for the fiscal year.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Year ended June 30, 2007

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

Auditor's Recommendation: Procedures to document and review recurring journal entries need to be implemented.

Grantee Response: A schedule of routine monthly and quarterly journal postings will be maintained, with documentation of items completed and their independent review.

- 2007-2 *Condition and criteria:* The detail of the receipts and disbursements for certain bank accounts were not included in the City's general ledger during the year. The general ledger should reflect all financial transactions of the City.

Effect: Several transactions including special assessment collections, debt service payments and the DWRF water improvement program transactions are not reflected in the City's internal financial statements.

Cause: The City has established additional bank accounts to reflect certain activities, for the purpose of safeguarding and segregating specific assets related to non-routine transactions. The City has in practice excluded certain accounts from the general ledger, with the expectation that the activity would be recorded during the year-end closing process.

Population and Items Tested: Unrecorded account activity representing \$1,712,936 in water capital asset construction, and other various activities in nine bank accounts representing revenues and expenditures of \$48,178 and \$59,077, respectively, was analyzed for purposes of recording the account transactions for the fiscal year.

Auditor's Recommendation: Procedures to include all transactions of the City in the general ledger need to be implemented.

Grantee Response: The City will post all financial transactions after analyzing the activity of all bank accounts monthly. The City separately provides regular reports of all transactions pertaining to the Drinking Water Revolving Fund program to the State of Michigan, and to the City Council, but will also include these transactions in the general ledger.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Year ended June 30, 2007

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

- 2007-3 *Condition and criteria:* Policies and procedures to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to record receivables and payables, changes in capital assets and long-term debt, and to develop appropriate footnote disclosures were not in place.

Effect: The City's financial reporting system does not produce financial statements in accordance with U.S. generally accepted accounting principles. Having the auditors draft the annual financial statements is allowable under current auditing standards and ethical guidelines, and may be the most efficient and effective method for preparation of the City's financial statements. However, when an organization (on its own) lacks the ability to produce financial statements that conform to generally accepted accounting principles, or when material audit adjustments are identified by the auditor, auditing standards require that such conditions be communicated in writing as material weaknesses.

Cause: As in prior years, the City has relied upon the auditors to identify and develop material adjustments necessary to convert cash basis financial statements into full accrual financial statements and to prepare the financial statements and appropriate disclosures.

Auditor's Recommendation: We recommend that management analyze the relative costs and benefits of securing the internal or other external resources necessary to develop material adjustments and prepare a draft the City's annual financial statements vs. contracting with its auditors for these services.

Grantee Response: The City will make an evaluation of the respective costs and benefits of obtaining internal or external resources specifically for the preparation of financial statements in accordance with U.S. generally accepted accounting principles.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

NONE

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

City Council
City of Galesburg, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Galesburg, as of and for the year ended June 30, 2007, which collectively comprise City of Galesburg's basic financial statements and have issued our report thereon dated November 28, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Galesburg's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Galesburg's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Galesburg's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Galesburg's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Galesburg's financial statements that is more than inconsequential will not be prevented or detected by City of Galesburg's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Galesburg's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that all of the significant deficiencies described in the accompanying schedule of findings and questioned costs are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether by the City of Galesburg's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Sigfried Crandall P.C.

November 28, 2007

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

City Council
City of Galesburg

Compliance

We have audited the compliance of the City of Galesburg, Michigan (the City), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2007. The City's major federal program is its Public Works Development Facilities Program. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the City of Galesburg is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Galesburg's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Galesburg's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operations that we consider to be a material weakness.

This report is intended for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Sigfried Crandall P.C.

November 28, 2007